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C O N F I D E N T I A L

LIMITED OFFICIAL USE GUANGZHOU 0904

BEIJING PASS SHENYANG

EO 12356: NA
TAGS: ECON, CH
SUBJECT: THE ILL WINDS OF INFLATION BLOW IN GUANGZHOU

REFS: (A) GUANGZHOU 0452: (B) FBIS HK 150534

SUMMARY: GUANGZHOU, THE TEST TUBE OF THE ECONOMIC REFORM PROGRAM, HAS REAPED MANY OF ITS BENEFITS-- EG, HIGHER WAGES AND A RELATIVE ABUNDANCE OF CONSUMER GOODS--BUT IT IS NOW EXPERIENCING SOME OF THE ADVERSE EFFECTS OF THE PROGRAM. DURING THE SPRING FESTIVAL HOLIDAYS WHEN DEMAND GREATLY EXCEEDED SUPPLY, THERE WAS A NOTICEABLE INCREASE IN PRICES FOR VARIOUS CONSUMER ITEMS. NOW THAT MARKET CONDITIONS HAVE RETURNED TO NORMAL, SOME STORES AND COMPANIES ARE MAINTAINING THE HIGHER PRICES IN AN ATTEMPT TO INCREASE THEIR PROFITS. SEVERAL ARTICLES EXPRESSING CONCERN ABOUT HIGHER PRICES WERE NOTED PRIOR TO BO YIBO'S VISIT TO GUANGZHOU IN MID-FEBRUARY. ON FEB 28 BO YIBO ISSUED A PUBLIC WARNING FROM BEIJING AGAINST MAJOR UNHEALTHY TENDENCIES IN WHICH HE SPECIFICALLY MENTIONED THE SETTING OF ARBITRARY PRICES. ALMOST IMMEDIATELY AFTER THIS ANNOUNCEMENT, THE GUANGZHOU PRESS AND LOCAL AUTHORITIES INTENSIFIED THEIR CAMPAIGN BY SPOTLIGHTING INDIVIDUAL ENTERPRISES AND THEIR PRACTICES. INSPECTION TEAMS WERE DISPATCHED, FINES IMPOSED AND LICENSES REVOKED. RESTAURANTS AND EATING ESTABLISHMENTS WERE THE PRIMARY FOCUS OF ATTENTION, BUT THE PRACTICES OF SOME LOCAL BUS AND TAXI COMPANIES WERE ALSO CRITICIZED. THE AUTHORITIES APPARENTLY ARE WILLING TO ACCEPT SOME INFLATION IN PRICES AS A NECESSARY PRODUCT OF THE ECONOMIC REFORM PROGRAM, BUT THEY ARE DETERMINED TO ELIMINATE INFLATIONARY PRESSURES CAUSED BY PRICE GOUGING OR PROFITEERING. PARTICULARLY WHERE IT HAS A DIRECT IMPACT ON CONSUMERS. END OF SUMMARY.

2. ONLY A FEW DAYS AFTER BO YIBO'S WARNING ON UNHEALTHY TRENDS (WAI FENG), THE MARCH 3 EDITION OF THE YANGCHENG EVENING NEWS CARRIED A FRONTPAGE ARTICLE DESCRIBING THE VISIT OF DENG HANGUANG, VICE MAYOR OF GUANGZHOU, TO A SMALL RESTAURANT. HE WAS SERVED A BOWL OF CONGEE CONTAINING ONLY SEVEN PIECES OF FISH INSTEAD OF THE STANDARD TEN AND CHARGED

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THE EXORBITANT SUM OF 1.50 YUAN, WHICH, ACCORDING TO THE ARTICLE, WAS MORE THAN HIGH-CLASS RESTAURANTS WOULD CHARGE. DENG WAS QUOTED AS SAYING SOME OF THE LOCAL RESTAURANTS ARE CHARGING HIGH PRICES AND THE AUTHORITIES SHOULD DO SOMETHING ABOUT IT. SUBSEQUENTLY, TWO RESTAURANTS IN THAT AREA WERE FINED 50 AND 120 YUAN. ACCORDING TO OTHER NEWSPAPER ARTICLES, SOME OF THESE NEWLY RAISED PRICES LET RESTAURANTS MAKE PROFITS IN THE RANGE OF 40-70 PERCENT. THE PRESS HAS CONTINUED TO CARRY A STEADY STREAM OF ARTICLES ON THIS SUBJECT RANGING FROM SPECIFIC EXAMPLES CITING THE RESTAURANT, THE PRICE OF THE DISH AND THE FINE IMPOSED, TO ARTICLES DESCRIBING ACTIONS THAT LOCAL AUTHORITIES ARE TAKING TO COMBAT THESE UNHEALTHY TRENDS.

3. THE CITY GOVERNMENT HAS INSPECTED RESTAURANTS, STORES AND MARKETS, LEVIED FINES AND CANCELLED LICENSES. FOR EXAMPLE, THE CITY-RUN GUANGZHOU CATERING SERVICE COMPANY, WHICH MANAGES MOST OF THE WELL-KNOWN HIGHER CLASS RESTAURANTS IN THE CITY, HAS ADOPTED A NUMBER OF MEASURES TO PROTECT THE CONSUMER'S INTEREST: SET UP A SYSTEM FOR DETERMINING PRICES AND APPROVING PRICE INCREASES, ESTABLISHED AN OFFICE TO INSPECT PRICES OF THE ESTABLISHMENTS UNDER THEIR CONTROL, AND SET UP A SPECIAL TELEPHONE NUMBER FOR CONSUMERS TO CALL TO REPORT HIGH PRICES. A MARCH 20 ARTICLE IN THE GUANGZHOU DAILY NEWS WHICH SAID THAT ONE DISTRICT OFFICE HAD DISPATCHED 220 STAFF TO INVESTIGATE PRICES IN STORES AND MARKETS AND HAD COLLECTED APPROXIMATELY 6,000 YUAN IN FINES, INDICATES THE CAMPAIGN IS STILL ON AND THAT OFFICIAL ACTION AND PRESSURE ARE STILL NEEDED TO CONTAIN PRICE INCREASES.

4. THE LEADERS OF THE GUANGZHOU MUNICIPAL PARTY COMMITTEE AND THE CITY GOVERNMENT, ACCORDING TO THE GUANGZHOU DAILY NEWS, MET JOINTLY ON MARCH 12 TO DISCUSS ACTIONS TO BE TAKEN TO STRENGTHEN THE MANAGEMENT OF THE PRICE OF GOODS. AT THAT MEETING, THE GUANGZHOU CITY PARTY SECRETARY, XU SHIJI, POINTED OUT THAT PRICES ARE RISING AND THAT WHILE SOME OF THE INCREASES ARE JUSTIFIED AS A NATURAL CONSEQUENCE OF THE CURRENT ECONOMIC DEVELOPMENT AND ARE ACTUALLY USEFUL IN PROMOTING THE DEVELOPMENT OF PRODUCTION, THERE ARE OTHERS WHICH ARE THE RESULT OF INDIVIDUALS WHO ARE TAKING ADVANTAGE OF THE REFORM PROGRAM TO ARBITRARILY RAISE PRICES FOR THEIR OWN PROFIT. THE LATTER IS AN UNHEALTHY PRACTICE, AND IT MUST BE CHECKED. AN IMPORTANT PART OF PARTY RECTIFICATION IS CHECKING THE UNHEALTHY TREND OF DISORDERLY PRICE RISES. THIS OFFICIAL PRONOUNCEMENT FROM THE HIGHEST LEVELS OF CITY GOVERNMENT GIVES ADDED WEIGHT TO THE CAMPAIGN AND WOULD APPEAR TO ADD A LITTLE MORE TEETH TO THE PROGRAM.

5. ALTHOUGH THE MEDIA CAMPAIGN SEEMED TO FOCUS MAINLY ON RESTAURANTS, WHICH CAN ABSORB UP TO FORTY OR EVEN FIFTY PERCENT OF THE AVERAGE CANTONESE HOUSEHOLD BUDGET, THE NEWSPAPERS ALSO POINTED OUT THAT OTHER CONSUMER GOODS OUTLETS, SUCH AS DEPARTMENT STORES, MEAT MARKETS, AND EVEN SCHOOLS AND HOSPITALS, HAVE BEEN FOUND GUILTY OF ARBITRARILY RAISING PRICES. THE CAMPAIGN ALSO ADOPTED A POSITIVE APPROACH IN THAT IT COMMENDED A NUMBER OF INDIVIDUAL ESTABLISHMENTS FOR MAINTAINING LOW PRICES DESPITE THE FACT THAT THEIR SOURCES OF SUPPLY HAD RAISED THEIR PRICES.

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6. EARLIER, LOCAL BUS AND TAXI COMPANIES ALSO CAME IN FOR CONSIDERABLE CRITICISM FROM THE PRESS. IN JANUARY AND FEBRUARY, SOME BUSES RAISED THE PRICE OF TICKETS AND REFUSED TO HONOR THE MONTHLY PASSES, INSISTING ON CASH PAYMENT AT THE HIGHER RATE. TO TRY TO COVER UP THE UNAUTHORIZED PRICE INCREASES,

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THE COMPANIES CHANGED THE SIGNS ON THESE BUSES TO "OVERTIME BUS", "DISTRICT BUS," OR "TEMPORARY BUS". THIS HIT THE NEWSPAPERS ON FEBRUARY 8 WHEN THE YANGCHENG EVENING NEWS RAN A FRONTPAGE ARTICLE ANNOUNCING THAT THE GUANGZHOU PUBLIC FACILITIES BUREAU HAD ORDERED THESE BUSES TO STOP OPERATING, WAS DISPATCHING INSPECTION TEAMS TO CHECK ON THE BUSES AND WOULD FINE ALL THOSE FOUND VIOLATING ESTABLISHED REGULATIONS.

7. IMMEDIATELY UNDER THE ARTICLE ON THE BUSES, THE YANGCHENG EVENING NEWS PUBLISHED A LETTER FROM ONE OF ITS READERS COMPLAINING THAT MANY GUANGZHOU TAXIS ARE DEMANDING PAYMENT IN FOREIGN EXCHANGE CERTIFICATE (FEC), THAT ONLY CERTAIN TAXIS ARE AUTHORIZED TO ACCEPT FEC AND THE AUTHORITIES SHOULD DO SOMETHING ABOUT IT. FOR AT LEAST THE LAST TWO YEARS, GUANGZHOU TAXI DRIVERS HAVE BEEN INSISTING THAT ALL FOREIGNERS AND OVERSEAS CHINESE PAY IN FEC. RECENTLY, WITH THE BLACK MARKET RATE FOR FEC CLIMBING EVER HIGHER, THEY HAVE TRIED TO APPLY THIS PRACTICE TO ALL PASSENGERS. FOR LOCAL RESIDENTS, THIS HAS HAD THE EFFECT OF A PRICE INCREASE OF 80 TO 100 PERCENT SINCE THE GOING FEC/RMB EXCHANGE RATE HAS RANGED FROM 1.8 TO 2.9 IN RECENT WEEKS. THE PUBLICITY AND WARNINGS APPEAR TO HAVE HAD A LEAST A MODERATING EFFECT IN THAT MANY OF THE DRIVERS WILL NOW ACCEPT RENMINBI FROM LOCAL RESIDENTS BUT NOT WITHOUT A LITTLE INITIAL PRESSURE FOR PAYMENT IN FEC. HOWEVER, WE DOUBT VERY MUCH THAT THIS TYPE OF PUBLICITY CAMPAIGN COUPLED WITH LIGHT-TO-MODERATE FINES AND THE REVOKING OF SOME LICENSES WILL ELIMINATE THESE PRACTICES. IT WILL PROBABLY ELIMINATE THE MOST FLAGRANT EXAMPLES AND PREVENT EXCESSIVE VIOLATION OF THE NORMS, BUT THE NATIVE INGENUITY OF THE AVERAGE CANTONESE WILL COME UP WITH A VARIETY OF NEW WAYS TO TEST THE SYSTEM UNLESS MORE SUBSTANTIAL MEASURES ARE APPLIED.

8. COMMENT: THE CAMPAIGN TO RESTRAIN PRICE INCREASES HAS FOCUSED ALMOST EXCLUSIVELY ON CONSUMER GOODS OR SERVICES, WITH A HEAVY EMPHASIS ON CONSUMER GOODS OR SERVICES, WITH A HEAVY EMPHASIS ON RESTAURANTS AND FOOD COSTS. CENTRAL AND LOCAL AUTHORITIES WANT TO MAINTAIN BROAD PUBLIC SUPPORT FOR THE ECONOMIC REFORM PROGRAM. A MAJOR THREAT TO MASS SUPPORT OF THIS PROGRAM WOULD BE FOR THE PRICE OF GOODS, PARTICULARLY POPULAR CONSUMER GOODS, TO RISE FASTER THAN WAGES ARE RISING. THROUGH MOST OF 1984, GUANGDONG PROVINCE INCLUDING THE CITY OF GUANGZHOU, HAD A GOOD RECORD ON THIS SCORE, SEE REFTEL A. HOWEVER, PROVINCIAL OFFICIALS HAVE ADMITTED THAT SINCE THE BEGINNING OF THIS YEAR, PRICES HAVE BEGUN TO RISE SIGNIFICANTLY (REFTEL B). WHILE WILLING TO TOLERATE SOME INFLATION, ESPECIALLY THAT WHICH CAN JUSTIFIABLY BE ATTRIBUTED TO RAPID ECONOMIC DEVELOPMENT, THEY SAY THEY WILL NOT ACCEPT PRICE RISES CAUSED BY PROFITEERING, SPECULATIVE PURCHASING AND OTHER ILL WINDS. THE PROBLEM IS A PARTICULARLY DIFFICULT ONE FOR GUANGDONG AND GUANGZHOU GIVEN THE MERCANTILE AND PECUNIARY NATURE OF THE CANTONESE PEOPLE AND THE NEARBY CORROSIVE INFLUENCE OF HONG KONG.

9. IN TERMS OF COVERAGE, THE YANGCHENG EVENING NEWS SPEARHEADED THE CAMPAIGN AGAINST PRICE RISES AND PROVIDED THE MOST GRAPHIC EXAMPLES OF UNHEALTHY TRENDS. WE HAVE FOUND THE YANGCHENG TO BE THE MOST INDEPENDENT AND DYNAMIC OF THE MAJOR GUANGZHOU NEWSPAPERS, AND BELIEVE THAT ITS COVERAGE IS PROBABLY A MORE ACCURATE REFLECTION OF THE VIEWS AND POLICIES OF PROVINCIAL AND CITY LEADERS THAN THE OTHER CITY PAPERS WHICH RARELY DEVIATE FROM THE LINE SET BY THE CENTRAL AUTHORITIES. CONSEQUENTLY, WE TEND TO BELIEVE THAT LOCAL SUPPORTERS OF THE REFORM PROGRAM ARE CONCERNED ABOUT THE RECENT PRICE RISES AND VIEW THIS TREND AS A POTENTIAL THREAT TO THEIR PROGRAM AND THAT THE CURRENT EFFORT IS NOT JUST AN EFFORT TO PAY LIP SERVICE TO THE WORDS OF THE CENTRAL AUTHORITIES.

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10. AFTER BO YIBO'S VISIT AND FEB 28 WARNING FROM BEIJING, LOCAL AUTHORITIES QUICKLY INTENSIFIED THEIR BROADBASED BUT RELATIVELY LENIENT CAMPAIGN OF EDUCATION, WARNING AND FINES. THIS WILL PROBABLY KEEP THE LID ON THE POT FOR AWHILE. HOWEVER, IF PRICE INFLATION IS TO BE KEPT UNDER CONTROL DURING A PERIOD OF RAPID ECONOMIC DEVELOPMENT AND MAJOR STRUCTURAL CHANGES IN THE ECONOMY, THE AUTHORITIES WILL HAVE TO RESORT TO STRONGER METHODS. THE TEMPTATIONS AND PRESSURES GENERATED BY THE CHANGES WILL BE TOO GREAT FOR CURRENT METHODS. THE MEASURES THEY USE TO HANDLE INFLATIONARY PRESSURES AND THE WAY THEY IMPLEMENT THEM--PARTICULARLY HERE IN THE GUANGZHOU TEST TUBE--WILL BE A GOOD INDICATION OF HOW SERIOUS THE REFORM PARTY IS ABOUT PRICE REFORM AND, MORE IMPORTANTLY, HOW STRONG THEIR POSITION IS. THEY THEMSELVES STATE THAT PRICE REFORM IS THE KEY TO THE ENTIRE ECONOMIC REFORM PROGRAM, AND EXCESSIVE INFLATION IS THE MAJOR THREAT TO PRICE REFORM. CARPENTER

END OF MESSAGE

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